

# CALIFORNIA PAY FOR SUCCESS



# CALIFORNIA PAY FOR SUCCESS INITIATIVE

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**TIMELINE:** 2014-2019  
**TOTAL BUDGET:** \$7.5 million

## OVERVIEW

In 2014, the Irvine Foundation launched a three-year initiative to explore new ways to support programs that effectively serve California's most vulnerable people.

At the time, a promising new model had emerged called Pay for Success, in which private investors, foundations, government entities, and organizations make funds available for services to people in need. In a Pay for Success project, the funders work with counties, states, and service providers, among others, to set clear targets for program success, agree on ways to measure progress, and conduct evaluations to see if they have achieved their agreed-upon outcomes. If the project succeeds, governments pay for the services in part or in full based on the achievement of those outcomes.

We were intrigued by the potential benefits of the approach — Pay for Success models are designed to both improve outcomes for people and reduce costs. The agreements support public-private partnerships to improve and expand social services through a variety of means: better use of government data to improve services, tying government contracts to outcomes that improve people's lives, and attracting private investment to bridge funding gaps. Investors — especially those in philanthropy — hope that governments will continue or expand the services once the program's approach has been shown to work.

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## LAUNCHING THE CALIFORNIA PAY FOR SUCCESS INITIATIVE

Although people were experimenting with Pay for Success projects elsewhere, California had not yet embraced this new model. In 2014, we partnered with the [Nonprofit Finance Fund](#), a Community Development Financial Institution with deep expertise in Pay for Success, to launch a three-year exploration called the California Pay for Success Initiative. Our goals were to find creative approaches to funding high-quality social services for California's most vulnerable individuals, and to bring more resources to proven programs.

We viewed the California Pay for Success initiative as a pilot of a time-limited grantmaking effort where we would identify specific outcomes, and we worked with our board to create a budget to achieve those outcomes. Our goals for the initiative were to build a robust Pay for Success field in California and to launch two to three Pay for Success-financed projects in the state by the end of 2016.

If we could show that this model had promise, our hope was that others might embrace this approach, adding another valuable tool that funders, investors, and governments alike could use to improve services for people in need.

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## GRANTEE PROFILE:

County of Santa Clara,  
Project Welcome Home

*From the Nonprofit Finance Fund*

[Pay for Success Scorecard](#)

In August 2015, Santa Clara County launched the first Pay for Success project in the state of California. With help from the California Pay for Success Initiative, Project Welcome Home is providing permanent supportive housing to County residents experiencing chronic homelessness. This innovative region—home to Silicon Valley—also launched a second project in January 2017—Partners in Wellness—the first mental health-focused PFS project in the nation.

Kavita Narayan, Deputy County Counsel at the County of Santa Clara, was closely involved in developing the second project where the County applied several lessons learned from the first:

- The County self-funded the project, streamlining negotiation of outcomes metrics and creating direct financial incentives for both parties.
- The evaluation was structured to use existing data—or data collected within existing processes—making it a more accessible, lower-cost approach while maintaining rigor.

Perhaps more importantly, says Narayan, are the ways Santa Clara County is “incorporating the lessons of Pay for Success into situations where ‘pure Pay for Success’ isn’t a good fit.”

The County has developed a program to fund legal representation for immigrants who are vulnerable to deportation. According to the County’s research, when immigrant children appear with counsel, the rate of their prevailing in court jumps from 15% to 70%. However, many organizations providing counsel to immigrants can’t devote an entire year to contract negotiations, as is standard practice in a traditional Pay for Success project. The pressing need for services also makes that timeline undesirable. The County is now directly funding the work and employing more flexible measurements and performance-based contracts for these services.

Similarly, the County is exploring how to interrupt a downward spiral that can occur when indigent County residents are arrested for low-level offenses. For residents who cannot afford to make bail, minor arrests can trigger job loss, housing loss, and even loss of custody of children. The County is evaluating a community bail fund and how best to support these residents to appear in court: such as providing reminders of upcoming proceedings and transportation to court. They plan to measure both first-order outcomes: rates of appearing, processing times out of jail, avoidance of new arrest; as well as second-order outcomes: job retention, income, and family outcomes.

Santa Clara County is proud to be a Pay for Success pioneer in California. But the greatest long-term benefit may be broader: an increased orientation to outcomes and collaboration. “Pay for Success has encouraged innovation and partnership. For various services, the County is now identifying outcomes-focused goals, and working together with providers to identify innovative and data-driven approaches to accomplish these goals,” says Naraya.

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## OUTCOMES

We identified success indicators (direct and indirect) for the initiative when we first proposed it. The table below describes the results for each.

INDICATOR	RESULT
Improved access to services and social outcomes for Californians most in need	Projects early in implementation show positive initial results in enrollment and retention. For example, the Ventura Project to Support Re-entry was able to enroll and place 71 participants who received 41 group hours and 54 hours of service (as of May 2018), and the Los Angeles Just in Reach project placed 117 individuals who wouldn't have received services otherwise (as of June 2018). In addition, positive early client outcomes were confirmed in the Santa Clara homelessness project, with 108 clients stably housed as of December 2017. A longer-term evaluation is needed to determine impact over time.
\$20–\$30 million in additional private capital invested in proven prevention programs	Three of the four projects launched by December 2017 blend Pay for Success financing with other government funds to increase scale and impact. Pay for Success upfront investment from all sources totals \$28.1 million, of which \$18.3 million came from private sources. As of 2017, these funds leveraged an additional \$39.6 million from other government funding streams (primarily Medicaid) toward effective programs. Additional capital may be raised overtime across these projects.

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## OUTCOMES (CONTINUED)

We identified success indicators (direct and indirect) for the initiative when we first proposed it. The table below describes the results for each.

INDICATOR	RESULT
\$60–\$140 million in social service savings at the state, county, and municipal levels	We believe that over time governments may save money from these projects, but we acknowledge that as of this writing in 2018, it is too soon to determine cost savings. That said, Pay for Success projects prioritize social outcomes over cost savings, so final cost savings may not be as significant as we initially anticipated.
Pay for Success field advanced in California	<ul style="list-style-type: none"><li>• Encouraged a greater orientation toward outcomes in the public sector</li><li>• Encouraged deeper understanding and appreciation for program evaluation and evidence among public sector and service provider partners</li><li>• Helped drive innovation and improve the Pay for Success model</li><li>• Created networking and cross-sector collaboration across Pay for Success projects in disparate geographies, and helped create new funding streams in the state and across the U.S.</li><li>• Catalyzed investments in government and service provider capacity and infrastructure for data tracking and outcome measurement</li></ul>
Promising leaders supported	58 leaders from 10 projects were supported through the Pay for Success learning community.

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## OUTCOMES (CONTINUED)

We identified success indicators (direct and indirect) for the initiative when we first proposed it. The table below describes the results for each.

INDIRECT INDICATOR	RESULT
Capacity of Pay for Success intermediaries built to support deals	We saw significant growth of Third Sector Capital Partners, Harvard Government Performance Lab, and Social Finance in California
Additional systems change inspired	The Board of State and Community Corrections and the California Department of Social Services have launched their own investments in Pay for Success projects and other outcomes-oriented contracting efforts. Also, the White House Social Innovation Fund modeled their national Pay for Success efforts, in part, on this initiative.

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## WHAT WE LEARNED

### *Scoping a Pay for Success project has benefits, even when the project does not launch*

This was not an original goal of the California Pay for Success Initiative, but we were pleasantly surprised by the unforeseen benefits of the process of scoping a Pay for Success project. In one very notable example, the City and County of San Francisco explored the use of Pay for Success outcomes for homeless families, transitional-aged youth, and new mothers and their children. The Pay for Success feasibility process uncovered challenges related to how services were provided in San Francisco, including an inability to track an individual's progress over time to understand whether the services were effective. As a result, San Francisco committed to investing in much-needed data infrastructure and is transforming its homelessness services by bringing all its programs under one office, despite being unable to identify a viable Pay for Success project.

### *Public sector leadership is critical in Pay for Success projects*

In order to launch, each project needs a champion for outcomes-based practices at the local government level, either from an elected official or from agency staff who can keep things moving despite institutional barriers and leadership transitions. We believe that a great deal of the success of the Santa Clara projects came as a result of energetic leadership there.

### *For funders, flexibility and communication are important in a time-bound initiative model*

Our experience with the Pay for Success Initiative has helped to inform other aspects of our grantmaking at the Irvine Foundation. In particular, we learned that ending an initiative can still be difficult for both funders and grantees, even with clear internal and external messaging about the time-bound nature of the work. Also, the initiative's strict focus on specific outcomes required trade-offs. Although it provided clear direction and metrics for success, we acknowledge the value of being flexible about outcomes so that we can pursue related projects that may allow us to reach our ultimate goals by other means.

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## CONCLUSION

The California Pay for Success Initiative was very much an experiment. As with any good experiment, we learned things that we had not anticipated, and not everything went according to plan. Pay for Success projects require a lot of work and measuring results can be challenging. But they also can help change the way governments and their funders think about success, which can be transformative in itself.

Our \$5 million investment has helped create almost \$70 million in total additional spending to tackle some of the most challenging social problems facing our state. This is an impressive output, but we are most interested in outcomes – the number of people who now have permanent homes, or who are receiving necessary medical care, among other very important and tangible benefits. On that score, the earlier indications are that these projects will prove to be successful. This is very gratifying.

Finally, we set out to help advance a new tool for philanthropy, and we are encouraged by how many governments and funders alike are embracing the approach and how they are changing the way they think about addressing social services. Pay for Success is no magic solution, but it has already made very important contributions to the social sector.

## ADDITIONAL RESOURCES

- [Nonprofit Finance Fund Pay for Success Scorecard](#)
- [PayForSuccess.org](https://www.payforsuccess.org)